THE SILVER SITUATION IN INDIA.

SILVER has never, so far as I am aware, been mined in India. This, of course, has not been the case with gold: southern India, which is now contributing over £1,500,000 to the yearly production of the world, was in prehistoric times undoubtedly the scene of very active mining. Under these circumstances it is not surprising that at one time, before commercial communication with India was easy and secure, silver was held in greater esteem than gold in the East. Even up to the middle of the last century it was rated more highly, as compared with gold, in Eastern markets than elsewhere. Such a state of things could not, however, continue; for from the early days of Venetian activity in trade Europe has been pouring silver into India, and from the time of the Mogul Empire this metal has been in effect the standard of Indian currency.

After a few spasmodic attempts, made about one hundred years ago, to introduce gold again into the monetary system of northern India, the various silver currencies were unified and the present rupee introduced in 1835. In the early sixties the modern commercial history of India may be said to commence. The suppression of the Sepoy revolt in 1857 gave security to British rule. The era of railway building began, and a large and systematic expenditure upon roads and communications was inaugurated. Even more important in its effects upon India's industrial development was the Civil War in the United States. Cotton being no longer procurable in the quantities needed, India was called upon to meet the demand and at once responded. The trade of Bombay doubled in five years. Times became good and prices rose. The usual result of over-trading followed, and the panic of 1866 worked widespread disaster. Yet the impulse given to India's export trade can hardly be over-estimated, and the effect remained when confidence was restored. When excitement was at its highest and loans were practically unattainable

at market rates of ten and fifteen per cent, the government, at the instance of the trading classes, attempted to give relief by offering to receive gold in payments at its treasuries. The experiment was, however, unsuccessful, for the reason that gold was over-valued in the notification. The finance minister of the time, Mr. Wilson, an orthodox though somewhat narrow-minded economist, declined to grapple with the difficulty, and contented himself with the establishment of our present system of paper currency. Up to this point all attempts to introduce gold were made with the idea of easing prices by increasing the media of circulation. Gold was sought for its cheapness, not for its scarcity.

In the next decade the conditions were entirely changed. Silver, in the course of expulsion from the currencies of the West, poured into India in an ever-broadening stream, and new financial troubles began. In twenty years the rate of exchange fell from 1*s.* 11½*d.* to 1*s.* 3*d.*, and the burden of the gold debt of India became oppressive. Each finance minister found it increasingly difficult to maintain an equilibrium. Merchants realized that a turn in the exchange was enough to convert a carefully calculated profit into a loss. Government officials — always an important body in a tropical country where Europeans are few — became discontented, finding that they could no longer remit sufficient to maintain their wives and children in the manner customary in their station of life. In 1892 the outlook became peculiarly threatening. Austria was found to be formulating a scheme for a gold currency, Russia was absorbing gold to rehabilitate the paper rouble, France and Germany seemed bent on accumulating huge war-chests, and America appeared to be on the verge of suspending her monthly purchases. The need for decided action was pressing, and the opportunity for taking it was ripe. The momentum necessary for the change was supplied by public, commercial and official opinion; and in 1893 the government decided to defend itself by closing the Indian mints to silver.

In connection with this step two questions naturally suggest themselves. First, what were the objective of the Indian

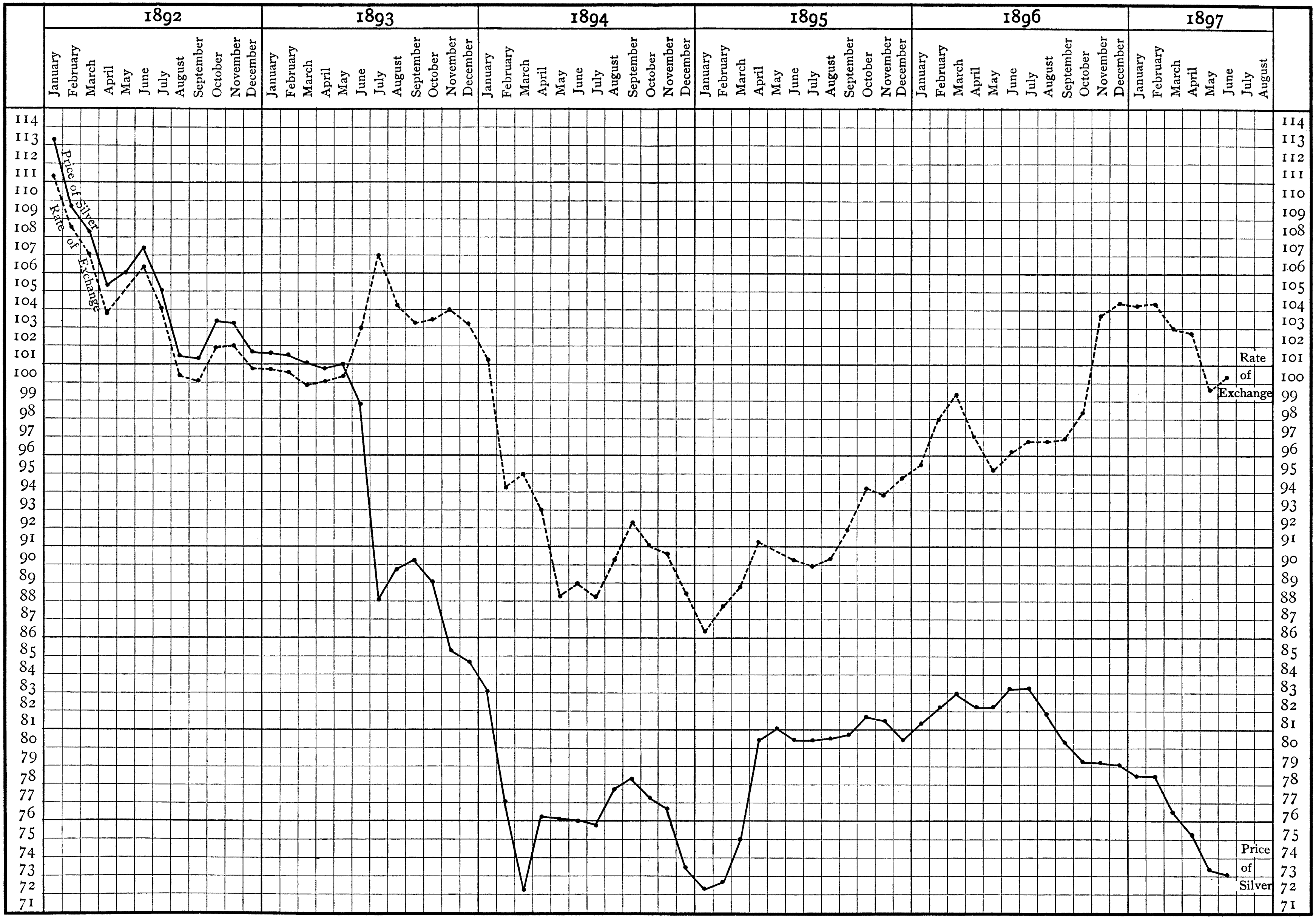
government and the methods taken to secure success? Second, what is likely to be the outcome? Unquestionably the aim of the government was the attainment of a gold standard — not necessarily because the members of that government were agreed that that was the best or the final solution of India's currency difficulties, but because it seemed the one easiest of attainment under the conditions then prevailing. Opinions were divided about the desirability of declaring any par as the goal aimed at; but the secretary of state was of opinion that, just as the bullion value of the rupee afforded a minimum limit to its value, so the declaration of the par of 1*s.* 4*d.* would afford a maximum. A certain section of the Indian government and an independent but uninformed body called the Indian Currency Association (which took a large part in educating public opinion and in advocating the change) held the unsound view that the rupee would rise at once to the par which it was desired to reach. The market inclined to the same view, and in consequence the rupee rose from 1*s.* 2½*d.* to 1*s.* 4*d.* on the passage of the act. It was soon seen, however, that Sir David Barbour and the more instructed of the India council in England were right, and that the process of appreciating the rupee must be slow. Though the rate of exchange was 1*s.* 4*d.*, the secretary of state at once found that he could not sell at that rate the drafts by which India's yearly gold liabilities of seventeen millions sterling are met. The ignorant party thereupon asseverated that, if he held out, the market must buy; and he gave way, desiring to allow the Indian government a free hand and thinking that this policy was approved by the Indian minister of finance. Events soon showed the unsoundness of the quaint idea that a government can pay its debts by selling drafts at a valuation fixed by itself, and the secretary of state resumed the usual weekly sales. The catastrophe was naturally the worse for the delay; and the rupee, having remained at an artificial level, fell to a lower point than it would probably have reached had drafts been sold consistently from the first at market rates. Not content with the evident proof of their failure to realize the position, the same

party, both within and without the government, changed their vote, declaring that the competition of silver with the council drafts was at the bottom of all the mischief and clamoring for an import duty. Fortunately their entreaties were not heeded, and the government has ever since steadily adhered to the policy of inaction, waiting for the rupee to rise by contraction of supply. The final objective of the government, however, has not been declared : in fact, it has never been settled. If the rupee rose to-morrow above 1*s.* 4*d.*, the sovereign would undoubtedly enter our treasuries; but no steps have been taken to secure its retention or the maintenance of this par.

It remains to discuss the chances of success presented by this experiment. Long and very laborious researches during the last seven years have led to the conclusion that the number of rupees circulating in India has been remarkably constant, and may for the ten years preceding 1886 be put down at about 120 crores. From 1886 to 1893 the circulation was, in my opinion, slightly expanding; and at the time the mints were closed it was perhaps nearer 130 crores. The average yearly coinage during the decade when the circulation was approximately constant was seven crores, and during the next few years, in which the circulation rose by ten crores, the average yearly coinage was nine crores. A consideration of these figures would lead a hasty observer to conclude that on the closure of the mints the circulation would shrink by about eight crores yearly. Such a conclusion, however, would be highly erroneous. The industrial demand for silver has hitherto fallen almost entirely upon the rupee, as is evidenced by the fact that nearly the entire import of silver used to pass through our mints. This state of things must clearly be ultimately arrested by a measure which tends to enhance the value of the rupee by contraction.

It is, indeed, probable that at first rupees continued, and will for some time to a diminishing degree continue, to be melted by the peasants for conversion into ornaments. Upon this point the ignorance of even the cultivated native is extraordinary. A friend of mine, a rajah of good education and intel-

Diagram showing the course of exchange in India and the fluctuations in the price of silver in London from January, 1892, to June, 1897.



NOTE.

This chart is adapted from another furnished by the director-general of statistics in India.

Mint closed to the public on the 26th June.

From August to 6th December the secretary of state refused to sell below 1s. 3¼d.

(Sherman Act repealed.)

On 31st Jan., 1894, the secretary made a small sale at the rate obtainable, and abandoned any attempt to control the market.

Import duties imposed.

(War between Japan and China.)

NOTE.

The data of the chart are:

Price of silver on 1st June, 1893, 37¾d. per ounce.

Rate of exchange on 1st June, 1893 (Calcutta demand), 1s. 2⅝d. per rupee.

Each of these has been taken to represent 100, and the curves of the diagram show the fluctuations in monthly averages on this basis.

Loan of four crores advertised on the 22d July.

Loan of three crores announced on the 19th July.

ligence, told me a few months ago that he was quite unaware of the fact that the rupee was worth some eighteen per cent more than its weight in silver. Still, though the purchaser may be ignorant and may as of old give his rupees to be melted, it is not likely that many silversmiths will continue to use them when they can buy bullion.

The effect upon hoarded coin cannot be so easily disposed of. Many thought (and among them were Sir David Barbour and myself) that on the whole the closure would not bring out hoarded rupees, and that the tendency would rather be to hoard further a coin of rising value. Others argued that holders of hoarded rupees would bring them out either to realize a profit by exchanging them for silver or to take advantage of the higher value of the rupee, the permanence of which they would distrust. In reality, it seems probable, judging from the facts — so far as they can be deduced from examining the composition of the circulation — that at first hoarded rupees did, on balance and in small amounts, reënter the circulation. This movement was no doubt stimulated by those who bought silver in large quantities after the closure, and has, I think, now ceased, although the present famine must be to some extent calling out coin that has been stored against bad times.

Matters are, however, now settling down. In spite of the famine, I believe that last year the circulation commenced to contract and that hereafter the progress in this direction will be steady. I do not for a moment mean to say that the yearly loss is anything like eight crores; but that on balance rupees are now being hoarded and are still to some extent melted ; and that these causes, coupled with losses due to natural causes, are contracting the circulation. Moreover, when it is remembered that since 1893 the volume of transactions has been increasing with an increasing population and trade, it is clear that, in the absence of any change in the methods of business by which its use is economized, even a constant circulation must tend to the appreciation of the rupee. These views are illustrated graphically by the appended diagram.

J. C. HARRISON.

THE FORT, MADRAS.